

Office of the Legislative Auditor

State of Montana



Report to the Legislature

June 1990

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

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Great Falls Vocational-Technical Center

This report contains 7 recommendations to the center regarding:

- ▶ Compliance with federal student financial aid requirements.
- ▶ Internal controls over cash receipts and equipment.
- ▶ Accounting for financial activity in accordance with state law and policy.
- ▶ Spending non-General Fund money first.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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Office of the Legislative Auditor

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June 1990

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The Legislative Audit Committee
of the Montana State Legislature:

This is the financial-compliance audit report on the Great Falls Vocational-Technical Center for fiscal years 1987-88 and 1988-89. The center's written response to audit recommendations is included at the end of the audit report. We thank the director, the center staff, and the Commissioner of Higher Education for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1989

Great Falls

Vocational-Technical Center

Members of the audit staff involved in this audit were: Pearl M. Allen, Jeane Carstensen, Susan A. Fleming, Boyd D. Gackle, GERALYN HUSCHKA, Lorry Parriman, and Catherine L. Scarff.

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Appointed and Administrative Officials

Board of Regents of Higher Education		<u>Term Expires</u>
Stan Stephens, Governor*		1992
Nancy Keenan, Superintendent of Public Instruction*		1992
William L. Mathers, Chairman	Miles City	1994
Elsie Redlin, Vice Chairman	Lambert	1991
Jim Kaze	Havre	1992
Thomas F. Topel	Billings	1993
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997
Vickie Rae Clouse, Student Regent	Havre	1990
Administrative Officials	Carrol Krause*	Commissioner of Higher Education
	John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs
	Brady J. Vardemann	Deputy Commissioner for Vocational Education
Great Falls Vocational- Technical Center	Willard R. Weaver	Director
	Tom Stump	Fiscal Officer (beginning August 1989)
	Mary Ellen Baukol	Fiscal Officer (through August 1989)

*Ex officio members of the Board of Regents of Higher Education

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the center's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the center reimburse federal student financial aid accounts for overawards in accordance with federal regulations.	6
	<u>Center Response:</u> Partially Concur. See page 33.	
<u>Recommendation #2</u>	We recommend the center establish procedures to estimate cash needs and request federal funds in accordance with federal regulations.	8
	<u>Center Response:</u> Concur. See page 33.	
<u>Recommendation #3</u>	We recommend the center implement a refund/repayment policy that complies with federal regulations.	8
	<u>Center Response:</u> Concur. See page 33.	
<u>Recommendation #4</u>	We recommend the center establish procedures to segregate cash receipts functions in accordance with state policy.	10
	<u>Center Response:</u> Concur. See page 34.	
<u>Recommendation #5</u>	We recommend the center establish adequate internal controls over fixed assets.	11
	<u>Center Response:</u> Concur. See page 34.	
<u>Recommendation #6</u>	We recommend the center: A. Record Carl Perkins subgrant activity, Pell receivables, and other financial activity in compliance with state law and policy.	15
	<u>Center Response:</u> Concur. See page 34.	

Summary of Recommendations

B. Revise Pell receivable collection policies and turn accounts over to the U.S. Department of Education after making reasonable collection efforts. 15

Center Response: Concur. See page 34.

C. Establish review procedures to ensure the center's accounting records comply with state law and policy, and federal student financial aid reports contain reliable financial data. 15

Center Response: Concur. See page 35.

Recommendation #7

We recommend the center use federal administrative cost allowance moneys to offset the costs of administering financial aid programs to the maximum extent possible, in accordance with state law. 16

Center Response: Concur. See page 35.

Introduction and Audit Objectives

We performed a financial-compliance audit of the Great Falls Vocational-Technical Center for the two fiscal years ended June 30, 1989. Our audit objectives were to:

1. Determine if the center complied with applicable state and federal laws and regulations.
2. Make recommendations for improving management and internal controls of the center.
3. Determine the implementation status of prior audit recommendations to the center.
4. Determine if the center's financial schedules for the two fiscal years ended June 30, 1989, present fairly the results of operations and changes in fund balances in accordance with state accounting law and policy.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Areas of concern deemed not to have a significant effect on the successful operations of the center are not included in this report, but have been communicated to center management.

Background

Governance

Official state designation was granted to the center in 1969 when the State Board of Education, through authorization granted by the state legislature, created the existing Montana Postsecondary Vocational-Technical Center System. At that time the Great Falls School District had established, in five different locations throughout the city, postsecondary programs offering training through adult education, in practical nursing, dental assistance, and food services. In 1971, these programs were physically consolidated into two elementary schools and administered as the Great Falls Vocational-Technical Center.

Introduction

Currently, the center operates in a building which was completed in 1977.

The Superintendent of Public Instruction and local school districts governed the postsecondary vocational-technical centers until Chapter 658, Laws of 1987, transferred governance to the Board of Regents of Higher Education, effective July 1, 1987. This law provided for a two-year transition period from July 1, 1987 to June 30, 1989. All vocational-technical center directors became state employees on July 1, 1987. All other center employees continued to be local school district employees through June 30, 1989, and became state employees on July 1, 1989.

Operations

The center is accredited by the Commission of Colleges of the Northwest Association of Schools and Colleges. Approximately 47 full-time equivalent faculty and staff provide instructional and administrative support at the center. During the audit period, the center offered instruction in 22 programs as follows:

- | | |
|----------------------------------|---|
| 1. Bookkeeping-Accountant | 13. Word Processing Operator-Legal |
| 2. Data Entry Specialist | 14. Word Processing Operator-Medical |
| 3. Business Management | 15. Dental Receptionist |
| 4. Micro-Computer Management | 16. Auto Body Repair & Refinishing |
| 5. Word Processor Operator | 17. Watchmaking & Jewelry/Small Instrument Repair |
| 6. Dental Assistant | 18. Dinner Cook/Food Management |
| 7. Nurse Attendant/Orderly | 19. General Office Assistant |
| 8. Practical Nurse | 20. Respiratory Therapy |
| 9. Respiratory Technician | 21. Child Care Specialist/Nanny |
| 10. Emergency Medical Technician | 22. Administrative Assistant/Secretary |
| 11. General Office Assistant | |
| 12. Medical Secretary | |

The following schedule illustrates the number of full-time equivalent (FTE) students enrolled at the center during fiscal years 1987-88 and 1988-89.

Great Falls Vocational-Technical Center
Schedule of Full-Time Equivalent (FTE) Students
For the Two Fiscal Years Ended June 30, 1989

<u>Quarter</u>	<u>Fiscal Year</u>	<u>Number of Students</u>	<u>Contact Hours</u>	<u>Calculated FTE *</u>
Summer	1987-88	276	53,822	161
Fall	1987-88	747	141,439	424
Winter	1987-88	627	139,067	417
Spring	1987-88	777	145,832	438
Summer	1988-89	351	62,708	188
Fall	1988-89	733	151,194	454
Winter	1988-89	641	152,893	459
Spring	1988-89	767	157,643	473

*Reported contact hours divided by 333.33

Source: Compiled by the Office of the Legislative Auditor
from the center's records.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the Great Falls Vocational-Technical Center audit for the two fiscal years ended June 30, 1987. The prior audit report contained five recommendations which are still applicable to the center's operations. The center concurred with all five prior recommendations. The center implemented three, partially implemented one, and did not implement one of the prior recommendations. The recommendation partially implemented relates to Pell overpayments and the recommendation not implemented relates to excess federal cash balances. These issues are again addressed in this report beginning on pages 5 and 7, respectively.

Findings and Recommendations

Federal Compliance

To comply with federal audit requirements our report discloses all federal compliance issues identified during the audit. These federal compliance issues are discussed on pages 5 through 8 of this report. During the audit period, the center participated in the following federal student financial aid programs: Pell Grants; Stafford Loans (formerly Guaranteed Student Loans); College Work Study (CWS); Supplemental Educational Opportunity Grants (SEOG); and State Student Incentive Grants (SSIG). In addition to the student aid programs, the center also received subgrants through the Commissioner of Higher Education (CHE) from the federal Vocational Education - Basic Grants to States, or Carl Perkins, program.

Financial Aid Overawards

Federal regulations make the center liable for any federal student financial aid overpayment it makes if the overpayment occurred because the center did not follow procedures prescribed in federal regulations. The center must restore funds used for such overpayments to the financial aid accounts, even if it cannot collect the overpayment from the student. During the prior audit, we noted Pell (Catalog of Federal Domestic Assistance [CFDA] #84.063) overpayments resulting from the center's noncompliance with federal regulations.

The center recalculated student financial aid awards and overpayments for fiscal years 1985-86 and 1986-87, as recommended in our prior audit. Center personnel determined 31 students received overpayments of financial aid. Because federal regulations permit overawards up to \$200 per student in all programs except Pell grants, the following net overawards are the amounts which should be reimbursed to the financial aid accounts.

Findings and Recommendations

<u>Type of Aid</u>	<u>Total Overawards</u>	<u>Net Overawards</u>
Fiscal Year 1985-86:		
CWS (CFDA #84.033)	\$2,469	\$1,287
SEOG (CFDA #84.007)	2,426	671
SSIG (CFDA #84.069)	452	100
Pell (CFDA #84.063)	<u>382</u>	<u>382</u>
Total for Fiscal Year 1985-86	\$5,729	\$2,440
Fiscal Year 1986-87:		
Pell (CFDA #84.063)	<u>2,038</u>	<u>2,038</u>
Total	<u>\$7,767</u>	<u>\$4,478</u>

Center personnel did not reimburse the financial aid accounts for the overawards because they were not sure what procedures they should use to do so. Center personnel should work with Commissioner of Higher Education officials and the Department of Administration's Accounting and Management Support Division to reimburse the financial aid accounts for overawards.

Recommendation #1

We recommend the center reimburse federal student financial aid accounts for overawards in accordance with federal regulations.

Cash Management

Federal regulations require the center to keep the minimum amount of cash possible. The center requests cash advances, through an electronic transfer system, from the U.S. Department of Education to finance its student financial aid disbursements. Federal guidelines indicate that institutions receiving funds through this system should keep no more cash than they plan to disburse within five working days.

We noted the center maintained excess cash balances in student financial aid accounts during the current audit period. The center exceeded the requirement by 3, to over 30, working days in the three months tested. For example, it took the center approximately 14 working days to fully expend a \$100,000 Pell (CFDA #84.063) advance and a \$4,720 SEOG (CFDA #84.007) advance, and over 30 working days to fully expend a \$1,200 CWS (CFDA #84.033) advance. The amount of federal cash requested is an estimate and may vary due to changes in anticipated registration and withdrawals. For proper federal cash management, the center should plan for and monitor financial aid disbursements for the purpose of estimating cash needs.

Excess federal cash was an issue addressed in our prior audit report of the center. Center personnel indicated that recording the transactions on the state's accounting system, which must be done to generate the warrants disbursing the funds, took more than five days during the current audit period. This accounts for some, but not all of the excess cash balances. Now that the state's accounting system requires on-line entry and edit of accounting transactions, transactions may be processed more quickly than possible during the audit period. Center personnel should develop procedures to better manage federal cash and to ensure disbursement of advanced federal funds within five working days.

Findings and Recommendations

Recommendation #2

We recommend the center establish procedures to estimate cash needs and request federal funds in accordance with federal regulations.

Federal Program Review

In January 1990, a federal program specialist conducted a review of the center's federal student financial aid programs for the 1987-88, 1988-89, and 1989-90 award years. The issue resulting from the review which is still not resolved by the center is summarized below.

The center has a refund policy for tuition and fees, but does not have a refund and/or repayment policy for overpayments made to federal student financial aid recipients. Federal regulations require the center to develop, publish, and consistently apply a fair and equitable refund policy for students who withdraw, dropout, or are expelled.

Center personnel indicated they plan to implement a refund/repayment policy that complies with federal regulations by August 1, 1990, in conjunction with the center's change from the quarter to the semester system.

Recommendation #3

We recommend the center implement a refund/repayment policy that complies with federal regulations.

Cash Controls

Center personnel processed approximately \$230,000 and \$250,000 in cash receipts during fiscal years 1987-88 and 1988-89, respectively, from the center's bookstore and food service operations. During our review of internal controls over cash receipts, we noted an inadequate segregation of duties between center personnel.

Center procedures were as follows during the audit period:

1. Bookstore and food service operators brought cash drawers and cash register tapes to the administrative secretary.
2. The administrative secretary agreed amounts from the cash drawers to the cash register tapes, then entered the receipt amounts in a journal.
3. The administrative secretary gave the cash receipts and journals to the accounting clerk, who recounted the cash, agreed the cash count to the journal, prepared a deposit slip, deposited the receipts at the bank, and prepared a collection report.
4. The fiscal officer or director reviewed and signed the hardcopy collection report, until the center began transmitting accounting transactions electronically. After that, the center established rules for processing transactions that allowed the accounting clerk to process a collection report without obtaining approval.

The accounting clerk could adjust journal amounts, take cash, and not deposit or record the cash under the center's current system. It is unlikely that this situation would be detected by the center.

State policy requires the responsibilities for recordkeeping, authorization, and custodianship of cash be separated if feasible. In processing cash collections, a plan for assigning duties to employees should be prepared whenever sufficient staff is available to achieve a separation of duties. The lack of an adequate segregation of duties weakens controls over the prevention and discovery of errors and irregularities.

Findings and Recommendations

Center personnel indicated it was most convenient for duties regarding cash receipts to be allocated to personnel as described above. We believe a more effective segregation of duties is possible using the same personnel. For example, the accounting clerk could be responsible for recordkeeping functions, the administrative secretary for custodianship (including deposit of cash receipts), and the fiscal officer for reconciling the accounting records. Section 2-1210.90 of the Montana Operations Manual shows an example of an employee assignment plan which segregates duties in this manner.

Recommendation #4

We recommend the center establish procedures to segregate cash receipts functions in accordance with state policy.

Equipment Controls

The center had recorded equipment of \$1,159,253 on its fixed asset records at June 30, 1989. The center purchases equipment with federal Carl Perkins (CFDA #84.048) funds and state funds. The following paragraphs discuss our concerns with the center's controls over equipment.

In fiscal year 1987-88, instructors responsible for custody of equipment performed the physical count of equipment. In fiscal year 1988-89, the person responsible for recording the center's equipment on the property records performed the physical count of equipment for some departments and instructors took the physical count for other departments. Montana Operations Manual section 2-1710.42 states: "In no event shall inventories be exclusively controlled by the custodian of the property records or the person to whom the fixed assets have been assigned."

The lack of segregation between custody of assets, inventory counts, and recordkeeping increases the possibility of undetected loss or theft of equipment. Center personnel stated they were

Findings and Recommendations

not aware that the center's equipment inventory count procedures resulted in an inadequate segregation of duties over equipment. Center personnel indicated they are comfortable with the current system because most equipment is used by more than one instructor each day, so loss of equipment would be detected.

We believe the center could efficiently implement controls to compensate for the lack of adequate segregation. Examples of the type of controls the center could establish would be to:

1. Have employees who do not have custody of the fixed assets perform and document sample test counts.
2. Have employees, other than those responsible for the equipment, perform the entire physical inventory count.

Recommendation #5

We recommend the center establish adequate internal controls over fixed assets.

Accounting Records

The center's financial information is used by center personnel, Commissioner of Higher Education officials, and legislators to manage and establish funding levels for the center. The following report sections discuss instances where the center's accounting records were not in compliance with section 17-1-102(4), MCA. This law requires state agencies to maintain their accounting records in accordance with generally accepted accounting principles (GAAP). We also noted instances where the center's financial activity was not recorded in accordance with state accounting policy. The recommendation regarding these issues is located on page 15.

Findings and Recommendations

Carl Perkins Subgrant

The Office of the Commissioner of Higher Education (CHE) subgranted federal Carl Perkins (CFDA #84.048) funds of \$145,312 and \$165,286 to the center for fiscal years 1987-88 and 1988-89, respectively. The legislature appropriated, in the Unrestricted Subfund, \$122,210 and \$141,471 of Carl Perkins money to the center in fiscal years 1987-88 and 1988-89, respectively. In fiscal years 1987-88 and 1988-89, the center recorded Carl Perkins expenditures for projects budgeted in the Unrestricted Subfund of \$121,702 and \$136,936. The center recorded Carl Perkins money received for projects in excess of the legislative appropriation in the Restricted Subfund.

Section 17-2-103, MCA, defines the uses of the Unrestricted and Restricted Subfunds as follows:

"The unrestricted subfund segregates that portion of the current fund's financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature."

"The restricted subfund segregates that portion of the current fund's financial resources that can be expended for general operations but only for purposes imposed by sources external to the board of regents and the legislature."

The state submits a plan to the U.S. Department of Education outlining proposed uses for Carl Perkins money granted to the state of Montana. The U.S. Department of Education must approve the plan before any Carl Perkins money is granted. Because the plan contains restrictions on the use of the money approved by a source external to the state, the center should record all Carl Perkins activity in the Restricted Subfund, except for that portion attributable to indirect costs which is properly recorded in the Unrestricted Subfund. By recording the Carl Perkins activity in the Unrestricted Subfund, the center's financial records are misstated as summarized below.

Findings and Recommendations

<u>Subfund</u>	<u>Account</u>	<u>Amount of Over(under) Statement</u>	
		<u>FY 1987-88</u>	<u>FY 1988-89</u>
Unrestricted	Transfers In	\$ 121,702	
Unrestricted	Federal Revenues		\$ 136,936
Unrestricted	Indirect Cost Recoveries	(9,163)	(10,643)
Unrestricted	Expenditures	112,539	126,293
Restricted	Federal Revenues	(112,539)	(126,293)
Restricted	Expenditures	(112,539)	(126,293)

The 1987 and 1989 Legislatures appropriated Carl Perkins federal assistance to the center in the Unrestricted Subfund. CHE officials indicated that conceptually the Carl Perkins activity should be in the Restricted Subfund, but because it was appropriated in the Unrestricted Subfund they instructed the center to record the activity there, up to the amount appropriated.

Pell Receivables

Federal regulations require institutions that disburse Pell grants (CFDA #84.063) to make a reasonable effort to collect receivables from students. At June 30, 1989, the center had \$12,769 of Pell receivables that were not recorded on SBAS. Although some of these receivables had been outstanding for four years, the center had not referred them to the U.S. Department of Education after making reasonable collection efforts, as required by federal regulations. The center's policy is to try to collect money from students and to return amounts collected to the U.S. Department of Education. The center should revise its Pell receivable collection policies and turn uncollected accounts over to the U.S. Department of Education after making reasonable collection efforts.

Center personnel indicated they believe the Pell refunds due from students should not be recorded on the center's records because the center plans to turn the accounts over to the federal government. Pell refunds due are valid receivables of the center because the center has an obligation to recover them until either the students repay the center or the center turns the accounts over to the U.S. Department of Education for collection.

Findings and Recommendations

Other Accounting Issues

Our audit disclosed other errors where the center did not apply accounting procedures in accordance with the state GAAP law or state policy. In addition, federal regulations require institutional recipients of Pell funds to establish and maintain financial records that reflect all program transactions in accordance with generally accepted accounting principles, and to ensure that financial reports contain reliable financial data. The following three items are examples of the types of problems we noted.

1. The center accounts for all financial activity relating to student government, which is funded by revenue from vending machines and student fees, in the Agency Fund. According to GAAP, an Agency Fund is used to account for the resources held by the center as a custodian or fiscal agent for individual students, faculty, staff members, and organizations. The Designated Subfund is used to account for resources that are internally designated by the governing board.

Center management and the Board of Regents exercise significant control by establishing policies the student government must follow. Accordingly, student government activities do not meet the criteria of an Agency Fund and should be recorded in the Designated Subfund. The student government's revenues and expenditures for fiscal years 1987-88 and 1988-89 are approximately \$14,000 and \$18,000, respectively. The Designated Subfund's fund balance is understated by \$7,812 at June 30, 1989.

2. The center classified all State Student Incentive Grant (CFDA #84.069) revenue as grants, contracts, donations, and abandonments. However, \$4,819 and \$5,026 of this revenue in fiscal years 1987-88 and 1988-89, respectively, was from federal sources and should be classified as federal revenue.
3. The center incorrectly increased, rather than decreased, deferred revenue in the Pell (CFDA #84.063) accounting entity at fiscal year-end 1988-89. As a result, deferred revenue was overstated and federal revenue was understated by \$1,352 in fiscal year 1988-89. Another error resulted in an understatement of \$329 in Pell revenue. Center personnel reported revenue instead of expenditures on the Pell

Findings and Recommendations

federal financial aid report. Therefore, the amount reported for Pell disbursements was \$1,681 less than the SBAS figure for fiscal year 1988-89.

Center personnel involved with the accounting function cited several reasons for the above mistakes, including human error. Center personnel also indicated they were aware the student government financial activity needed to be moved to the Designated Subfund, but to date they have not moved the student government activity. The center's review of the federal financial aid report did not include a verification that the amounts reported agreed to SBAS. The center should develop a review process to ensure financial activity is recorded on the center's accounting records in accordance with state law and policy. The center should also ensure federal reports contain reliable financial data.

Recommendation #6

We recommend the center:

- A. Record Carl Perkins subgrant activity, Pell receivables, and other financial activity in compliance with state law and policy.
- B. Revise Pell receivable collection policies and turn accounts over to the U.S. Department of Education after making reasonable collection efforts.
- C. Establish review procedures to ensure the center's accounting records comply with state law and policy, and federal student financial aid reports contain reliable financial data.

Use of Administrative Cost Allowance

The center receives an administrative cost allowance of 5 percent of expenditures in the College Work Study and Supplemental Educational Opportunity Grant programs and a set amount for each Pell grant awarded. At June 30, 1989, the center had a \$2,700 fund balance in the Restricted Subfund

Findings and Recommendations

indicating the center had not spent all of the administrative cost moneys received. The center's receipts of administrative cost allowance moneys exceeded expenditures recorded in the Restricted Subfund by \$1,402 in fiscal year 1988-89.

Federal regulations require the institution to use its administrative cost allowance to offset the cost of administering financial aid programs. We believe the center has administrative costs in excess of the federal allowance because the center recorded financial aid office expenditures in the Unrestricted Subfund in each fiscal year. Most of these expenditures are attributable to the federal programs; however, the financial aid office also administers scholarships and other nonfederal financial aid programs.

The Unrestricted Subfund includes moneys appropriated by the legislature from the state General Fund. Center personnel indicated they prefer to use the administrative cost allowance moneys for training, rather than for routine administration of financial aid programs. By not spending administrative cost allowance moneys to the maximum extent possible, the center did not comply with section 20-16-204(2), MCA, which requires vocational-technical centers to apply expenditures against non-General Fund money wherever possible before using General Fund appropriations.

The center could transfer expenditures from the Unrestricted Subfund to the Restricted Subfund or place administrative cost allowance moneys in the Unrestricted Subfund. Either method could result in an Unrestricted Subfund reversion to the state General Fund.

Recommendation #7

We recommend the center use federal administrative cost allowance moneys to offset the costs of administering financial aid programs to the maximum extent possible, in accordance with state law.

Property Ownership

Due to the change in governance discussed on page 1, ownership of the land and buildings where the center operates has not been settled. As of June 30, 1989, the center had not recorded any land and buildings on its accounting records. The Great Falls School District has recorded land and buildings used by the center, valued at \$4.3 million in 1987, on the district's accounting records.

The center operates in a building which was completed in 1977. The center's building was financed with \$2 million of state and \$2 million of local funds. The center has outstanding debt on its facility. House Bill 100 from the 1989 Legislative Session includes an appropriation to the Board of Regents (BOR) for the bond payments for fiscal years 1989-90 and 1990-91. House Bill 100 states the appropriation "may not be expended unless the board of regents obtains a contract from the school district that ensures that the state of Montana will receive deed to the vocational-technical center facility for the cost of retiring the outstanding bond." To date, no contract has been received, so no payments have been made from this appropriation for the center.

The center's bond payment was also included in Great Falls' fiscal year 1989-90 levy amount because the school district was not sure if and when they would receive a payment from the state. The district made the July 1989 interest payment and the December 1989 principal payment. According to Great Falls school district officials, when the money is received from the state it will be put into the secondary bond debt account and will reduce the amount the district will have to levy in fiscal year 1990-91 for bond debt. Assuming the contract is signed and the payments are received from the state, the district does not intend to include the center's bond payment in the fiscal year 1990-91 levy.

The center's building is located on land of which one-half was transferred from the College of Great Falls (CGF) to the school district and one-half was purchased by the school district in

Disclosure Issue

1974. Negotiations to transfer the land to the BOR were hampered due to a restrictive covenant which was part of the original transfer of the land from the CGF. The CGF interprets the covenant to not allow the center to offer any courses for which college credit may subsequently be granted. This interpretation is unacceptable to the BOR, and as of December 15, 1989, the BOR is no longer in negotiation with the CGF. The BOR plans to accomplish the transfer of the land and building with the Great Falls School District under the BOR's interpretation of the covenant provisions.

We present this information for disclosure purposes only and make no recommendation at this time pending resolution of the ownership interests.

Independent Auditor's Report & Center Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules presented on pages 22 through 29 are prepared from the Statewide Budgeting and Accounting System without adjustments for errors noted during the audit. The following independent auditor's report issued on the financial schedules is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial schedules indicates the schedules are fairly stated, in all material respects, and the reader may rely on the reasonableness of the information presented on these schedules.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit
JAMES GILLET
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

INDEPENDENT AUDITOR'S REPORT

LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

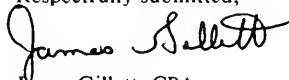
We have audited the financial schedules of the Great Falls Vocational-Technical Center for each of the two fiscal years ended June 30, 1988 and 1989, as shown on pages 22 through 29. These financial schedules are the responsibility of the center's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the center's financial schedules are prepared in accordance with state accounting policy and, accordingly, are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Great Falls Vocational-Technical Center for the two years ended June 30, 1988 and 1989, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,


James Gillett, CPA
Deputy Legislative Auditor

January 31, 1990

GREAT FALLS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	CURRENT YEAR				ENVIRONMENT FUND	PLANT FUND	
	Unrestricted Subfund	Restricted Subfund	Designated Subfund	Auxiliary Subfund		Unexpended Plant Subfund	Renewal and Replacement Subfund
FUND BALANCE July 1, 1987	\$ 187,203 ²	\$ 10,451	\$20,283	\$ 55,744	\$11,320	\$ 0	\$ 0
ADDITIONS							
<u>Fiscal Year 1987-1988</u>							
Budgeted Revenue & Transfers In	1,543,691	221,307	7,956	80,229			
Nonbudgeted Revenue & Transfers In	650	227,205	11,123	14,254			
Prior Year Revenue Additions/Adjustments	(48,628)	(399)	250				
Prior Year Transfers In Adjustments	(12,738)						
<u>Fiscal Year 1988-1989</u>							
Budgeted Revenue & Transfers In	2,004,809	666,736	14,111	254,972		20,567	20,567
Nonbudgeted Revenue & Transfers In		1,100			140		
Prior Year Revenue Additions/Adjustments	542	(1,741)					
Prior Year Transfers In Adjustments	(3,674)						
Total Additions	\$ 2,564,912	\$ 1,116,215	\$ 14,311	\$ 254,972	\$ 140	\$ 20,567	\$ 20,567
REDUCTIONS							
<u>Fiscal Year 1987-1988</u>							
Budgeted Expenditures	1,759,515	216,306	14,703	63,821			
Nonbudgeted Expenditures & Transfers Out	1,501	230,320	19,173	136,106			
Prior Year Expenditure Adjustments	3,071						
Nonbudgeted Prior Year Expenditure Adjustments		238					
Nonbudgeted Prior Year Transfers Out Adjustments		58					
<u>Fiscal Year 1988-1989</u>							
Budgeted Expenditures & Transfers Out	2,044,905	632,543	12,449	251,951			
Nonbudgeted Expenditures & Transfers Out	4,214	15,967		2,970	1,110		
Prior Year Expenditure Adjustments	729	(325)		(93)			
Nonbudgeted Prior Year Expenditure Adjustments		1,892					
Total Reductions	\$ 2,050,648	\$ 649,258	\$ 12,549	\$ 254,828	\$ 1,110	\$ 0	\$ 0
FUND BALANCE June 30, 1989	\$ 161,514 ²	\$ 37,355	\$ 1,811	\$ 55,116	\$ 10,560	\$ 20,567	\$ 20,567

¹ Center began using the Plant Fund in fiscal year 1988.

² See note 10.

GREAT FALLS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN
ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

	<u>Taxes</u>	<u>Charges For Services</u>	<u>Sale of Documents, Merchandise and Property</u>	<u>Investment Earnings</u>	<u>Other Financing Sources</u>	<u>Grants, Contracts, Donations & Abandonments</u>	<u>Federal</u>	<u>Miscellaneous</u>	<u>Total</u>
<u>Fiscal Year 1988-1989</u>									
<u>CURRENT FUND:</u>									
Unrestricted Subfund									
Estimate	\$-85,316	\$-29,750			\$1,022,040		\$141,471	\$ 300	\$2,078,897
Actual	<u>\$84,871</u>	<u>\$49,799</u>			<u>1,022,673</u>		<u>137,357</u>	<u>118</u>	<u>2,084,809</u>
Collections Over(under) Estimate	<u>\$190,445</u>	<u>\$79,549</u>			<u>\$ 611</u>		<u>\$ (4,311)</u>	<u>\$ (182)</u>	<u>\$ (27,388)</u>
Restricted Subfund									
Estimate		\$ 310		\$ 6,000	\$ 1,600	\$13,037	\$ 620,663		\$ 641,600
Actual		<u>362</u>		<u>832</u>	<u>1,644</u>	<u>653,371</u>	<u>620,663</u>		<u>666,776</u>
Collections Over(under) Estimate		<u>\$ 52</u>		<u>\$ (1,168)</u>	<u>\$ 44</u>	<u>\$ (490)</u>			<u>\$ 25,176</u>
Designated Subfund									
Estimate		\$ 5,000	\$ 6,420						
Actual		<u>\$ 5,050</u>	<u>7,029</u>					\$2,080	<u>\$ 14,509</u>
Collections Over(under) Estimate		<u>\$ (750)</u>	<u>\$ 349</u>					<u>2,052</u>	<u>\$ 16,111</u>
Auxiliary Subfund									
Estimate			\$ 320,000						\$ 320,000
Actual			<u>324,972</u>						<u>324,972</u>
Collections Over(under) Estimate			<u>\$ (4,972)</u>						<u>\$ (4,972)</u>
<u>PLANT FUND:</u>									
Unexpended Plant Subfund									
Estimate		\$ 21,000							\$ 21,000
Actual		<u>20,867</u>							<u>20,867</u>
Collections Over(under) Estimate		<u>\$ (133)</u>							<u>\$ (133)</u>
Renewal and Replacement									
Estimate		\$ 21,000							\$ 21,000
Actual		<u>20,867</u>							<u>20,867</u>
Collections Over(under) Estimate		<u>\$ (133)</u>							<u>\$ (133)</u>
<u>Fiscal Year 1987-1988</u>									
<u>CURRENT FUND:</u>									
Unrestricted Subfund									
Estimate	\$-67,116	\$280,800			\$1,173,993				\$1,867,909
Actual (see note 2)	<u>\$17,000</u>	<u>\$62,629</u>			<u>1,163,982</u>				<u>\$1,843,611</u>
Collections Over(under) Estimate	<u>\$184,116</u>	<u>\$218,171</u>			<u>\$ 10,011</u>				<u>\$ 24,298</u>
Restricted Subfund									
Estimate		\$ 500		\$ 1,311	\$ 24,064	\$10,915	\$ 411,002		\$ 447,892
Actual (see note 2)		<u>0</u>		<u>8,779</u>	<u>16,676</u>	<u>2,770</u>	<u>125,342</u>		<u>223,567</u>
Collections Over(under) Estimate		<u>\$ 500</u>		<u>\$ (7,468)</u>	<u>\$ 7,388</u>	<u>\$ (8,855)</u>	<u>\$ (14,340)</u>		<u>\$ (13,773)</u>
Designated Subfund									
Estimate		\$ 14,612	\$ 4,600					\$ 500	\$ 19,712
Actual (see note 2)		<u>4,210</u>	<u>3,506</u>					<u>240</u>	<u>7,956</u>
Collections Over(under) Estimate		<u>\$ 10,402</u>	<u>\$ 1,094</u>					<u>\$ (240)</u>	<u>\$ 11,756</u>
Auxiliary Subfund									
Estimate			\$ 20,000						\$ 20,000
Actual (see note 2)			<u>80,219</u>						<u>80,219</u>
Collections Over(under) Estimate			<u>\$ 60,219</u>						<u>\$ 60,219</u>

This schedule is prepared from the Schedule Budgeting and Accounting System. Additional information is provided in the notes to the financial statements in pages 26 through 29.

GREAT FALLS VOCATIONAL TECHNICAL CENTER
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1989

	<u>Instruction</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Plant Operation & Maintenance</u>	<u>Scholarships & Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Total</u>
PERSONAL SERVICES								
Salaries	\$ 858,292	\$147,368	\$ 82,147	\$113,751				\$1,161,758
Hourly Wages	40,547	53			\$ 76,920			117,520
Employee Benefits	174,567	34,676	19,007	23,626	26,061		\$ 78,534	283,797
Total	<u>1,053,406</u>	<u>182,097</u>	<u>101,154</u>	<u>137,377</u>	<u>102,981</u>		<u>78,534</u>	<u>1,465,517</u>
OPERATING EXPENSES								
Contracted Services	29,635	17,393	9,602	400	5			57,115
Supplies & Materials	88,661	24,119	13,641	6,547	8,188		33,419	174,975
Communications	2,122	10,525	4,987	93	11,397			29,124
Travel	10,999	2,449	4,981	7,190			161	25,780
Rent	3,593	264	1,000					4,857
Utilities					78,069			78,069
Repair & Maintenance	19,604	4,633	360		16,777		3,738	45,112
Other Expenses	12,680	5,959	1,850	3,791	2,480		616	27,376
Goods Purchased For Resale	6,794						173,405	180,199
Total	<u>175,995</u>	<u>45,362</u>	<u>36,437</u>	<u>15,101</u>	<u>115,315</u>		<u>211,739</u>	<u>629,517</u>
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	176,626	3,195		6,857	15,144		15,640	215,662
Total	<u>176,626</u>	<u>3,195</u>		<u>6,857</u>	<u>15,144</u>		<u>15,640</u>	<u>215,662</u>
GRANTS								
From Federal Sources						\$ 479,152		479,152
Total						<u>479,152</u>		<u>479,152</u>
TRANSFERS								
Nonmandatory Transfers						1,650		1,650
Total						<u>1,650</u>		<u>1,650</u>
DEBT SERVICE								
Leases	20,964							20,964
Total	<u>20,964</u>							<u>20,964</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,478,990</u>	<u>\$263,634</u>	<u>\$137,676</u>	<u>\$169,559</u>	<u>\$133,447</u>	<u>\$480,802</u>	<u>\$295,251</u>	<u>\$2,279,856</u>
CURRENT FUND*								
Unrestricted Subfund								
Budget	\$1,384,096	\$132,138	\$134,766	\$160,560	\$233,682			\$2,145,242
Actual	1,184,095	132,767	134,766	160,559	233,661			2,046,908
Unspent Budget Authority	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21</u>			<u>\$ 131</u>
Restricted Subfund								
Budget	\$ 26,370	\$137,729	\$ 4,511			\$918,181		\$ 1,156,791
Actual	26,352	118,567	2,817			631,817		879,536
Unspent Budget Authority	<u>\$ 0</u>	<u>\$ 19,162</u>	<u>\$ 1,694</u>			<u>\$ 286,364</u>		<u>\$ 477,216</u>
Designated Subfund								
Budget	\$ 74,900							\$ 74,900
Actual	32,443							32,443
Unspent Budget Authority	<u>\$ 42,457</u>							<u>\$ 42,457</u>
Auxiliary Subfund								
Budget						\$277,550		\$ 277,550
Actual						251,251		251,251
Unspent Budget Authority						<u>\$ 26,299</u>		<u>\$ 26,299</u>

* See page 11

GREAT FALLS VOCATIONAL-TECHNICAL CENTER
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES
BY OBJECT AND FUND - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Instruction</u>	<u>Academic Support</u> ¹	<u>Student Services</u> ¹	<u>Plant Operation & Maintenance</u>	<u>Scholarships & Fellowships</u>	<u>Auxiliary Enterprises</u>	<u>Support</u> ¹	<u>Total</u>
PERSONAL SERVICES								
Salaries	\$ 751,092	\$ 51,796					\$258,329	\$1,061,217
Hourly Wages	9,107	13,207		\$ 60,473			95	89,819
Employee Benefits	160,022			20,773		\$ 6,957		217,772
Total	<u>920,221</u>	<u>65,003</u>		<u>81,246</u>		<u>6,955</u>	<u>317,305</u>	<u>1,305,308</u>
OPERATING EXPENSES								
Contracted Services	6,797	694	\$ 4,060	16,124			37,628	67,300
Supplies & Material	83,743	6-7		25,754			29,287	138,431
Communications	919	250		18,101		10,983	11,912	42,225
Travel	9,283	2,030	1,947				4,915	18,175
Rent	12,498						1,358	13,856
Utilities				63,222				63,222
Repair & Maintenance	16,806	506		29,614		557	8,576	56,059
Other Expenses	12,245	696	300	2,320		285	8,435	26,331
Goods Purchased For Resale	1-03						19,037	40,661
Total	<u>142,375</u>	<u>4,488</u>	<u>6,307</u>	<u>157,702</u>		<u>10,652</u>	<u>102,091</u>	<u>460,245</u>
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	<u>48,265</u>		<u>7,401</u>			<u>4,034</u>		<u>59,680</u>
Total	<u>48,265</u>		<u>7,401</u>			<u>4,034</u>		<u>59,680</u>
DEBT SERVICE								
Leases	<u>10,808</u>							<u>10,808</u>
Total	<u>10,808</u>							<u>10,808</u>
GRANTS								
From Federal Sources					\$176,809			176,809
Total					<u>176,809</u>			<u>176,809</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,777,540</u>	<u>\$ 69,490</u>	<u>\$13,708</u>	<u>\$259,614</u>	<u>\$176,809</u>	<u>\$ 63,491</u>	<u>\$19,324</u>	<u>\$2,160,516</u>
CURRENT FUND								
Unrestricted Subfund								
Budget	\$1,103,513			\$258,756			\$19,844	\$1,761,709
Actual (see note 2)	<u>1,101,433</u>			<u>235,436</u>			<u>412,330</u>	<u>1,759,515</u>
Unspent Budget Authority	<u>\$ 2,080</u>			<u>\$ 1,320</u>			<u>\$ 1,514</u>	<u>\$ 3,914</u>
Restricted Subfund								
Budget	\$ 27,453	\$10,012	\$ 3,500		\$294,535			\$ 425,500
Actual (see note 2)	<u>17,456</u>	<u>69,826</u>	<u>2,209</u>		<u>126,569</u>			<u>219,316</u>
Unspent Budget Authority	<u>\$ 9,997</u>	<u>\$ 10,183</u>	<u>\$ 1,291</u>		<u>\$ 1,966</u>			<u>\$ 30,917</u>
Designated Subfund								
Budget	\$ 9,570		\$11,500					\$ 21,070
Actual (see note 2)	<u>8,304</u>		<u>11,499</u>					<u>19,803</u>
Unspent Budget Authority	<u>\$ 1,266</u>		<u>\$ 1</u>					<u>\$ 1,267</u>
Auxiliary Subfund								
Budget						\$214,340		\$ 214,340
Actual (see note 2)						<u>63,621</u>		<u>63,621</u>
Unspent Budget Authority						<u>\$ 150,719</u>		<u>\$ 150,719</u>

¹ See note 4.

This schedule is prepared in the Styleform Budgeting and Accounting System and is presented on pages 26 through 29.

GREAT FALLS VOCATIONAL-TECHNICAL CENTER
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. The center's accounts are organized on the basis of the fund structure outlined in section 17-2-102, MCA. The financial schedules present center activity from the following higher education funds:

Current Fund - Includes economic resources expendable for instruction, research, public service, and the allied support operations and programs. The financial activities of the Current Fund are subdivided into the following four subfunds:

Unrestricted - funds for general operations which are free of restrictions, except those imposed by the legislature.

Restricted - funds for financing general operations for purposes imposed by sources external to the Board of Regents and the legislature, such as the student financial aid programs.

Designated - funds for general operations which have been internally restricted. This fund is separately classified in order to distinguish the specific type of service provided to various departments and is supported by internal charges to user departments. Most activity in this subfund is related to the center's operations for the autobody and watchmaking repairs, seminars, and workshops.

Auxiliary - funds for providing goods and services primarily to students, faculty, or staff through a fee charged the consumer which is directly related to, but does not necessarily equal, the cost of the goods or services provided. The revenues are derived directly from the auxiliary bookstore and food service operations.

Endowment Fund - donated funds where the donor or center has designated initial contributions as nonexpendable principal and scholarships are awarded at the discretion of a scholarship committee and in accordance with any donor restrictions. The Lulu Mae Clay endowment for scholarships is accounted for in this fund.

Plant Fund - accounts for financial resources allocated for capital outlay purposes or to retire long-term debts associated with construction or acquisition of fixed assets. The center records financial activity in the following two subfunds of the Plant Fund:

Unexpended Plant - accounts for unexpended resources from various sources to finance the acquisition of long-lived assets.

Renewal & Replacement - accounts for the funds needed to provide for the renewal and replacement of Plant Fund assets.

B. Basis of Accounting

The center uses the accrual basis of accounting. Under the accrual basis of accounting, expenses are recorded when a valid obligation is incurred, if measurable. The following items are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is to be accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which a purchase order is issued.
- Goods ordered but not received as of the fiscal year-end may be accrued if the purchase order was issued prior to fiscal year-end.

Revenues are recognized in the accounting period in which they are earned and become measurable.

C. Vacation and Sick Leave

Upon termination, qualifying classified and administrative employees having unused accumulated vacation and sick leave are paid 100 percent for vacation. Classified employees are paid 25 percent for sick leave upon termination. Teachers and administrators, upon termination, are paid 50 percent for unused accumulated sick leave earned prior to July 1, 1989, and 25 percent for sick leave earned after June 30, 1989. The center recorded a liability of \$102,858 for accumulated employee vacation and sick leave at June 30, 1989. Because the vacation and sick leave liability is not funded, it caused the negative fund balances in the Unrestricted Subfund.

2. BUDGET INFORMATION

Budgets for planning and controlling financial operations are set in two ways for the center. The legislature appropriates the Current Fund's Unrestricted Subfund, which includes money from the state's General Fund. Agencies have one year, after the end of the fiscal year for which the General Fund money was

appropriated, to charge valid prior year expenditures. The agency must then return any unspent General Fund money to the state General Fund.

All other funds are budgeted and may be spent contingent upon approval of the comprehensive program budget by the Board of Regents by July 1st of each year. Although budgets were approved and input onto SBAS for fiscal year 1987-88, the center did not convert all of its revenue and expenditure activity from nonbudgeted to budgeted. The following schedules present the center's fiscal year 1987-88 nonbudgeted activity.

Schedule of Nonbudgeted Revenue and Transfers In By Class and Fund

	<u>Unrestricted Subfund</u>	<u>Restricted Subfund</u>	<u>Designated Subfund</u>	<u>Auxiliary Subfund</u>	<u>Total</u>
Rental, Leases, Royalties	\$650				\$ 650
Charges for Services			\$8,645		8,645
Sale of Documents, Merchandise and Property			2,015	\$149,598	151,613
Investment Earnings		\$ (6,475)			(6,475)
Grants, Contracts, Donations, and Abandonments		8,915			8,915
Federal		214,433			214,433
Miscellaneous			540		540
Revenue Refunds			(80)	(1,614)	(1,694)
Other Financing Sources		<u>10,332</u>			<u>10,332</u>
Total	<u>\$650</u>	<u>\$227,205</u>	<u>\$11,120</u>	<u>\$147,984</u>	<u>\$386,959</u>

Schedule of Nonbudgeted Program Expenditures and Transfers Out By Program and Fund

	<u>Unrestricted Subfund</u>	<u>Restricted Subfund</u>	<u>Designated Subfund</u>	<u>Auxiliary Subfund</u>	<u>Total</u>
Instruction		\$ 5,977	\$ 2,918		\$ 8,895
Academic Support		7,700	514		8,214
Student Services		4,770	15,741		20,511
Plant Operation & Maintenance	\$ 957	2,481			3,438
Scholarships & Fellowships		209,392			209,392
Auxiliary Enterprises				\$137,447	137,447
GAAP Adjustments	<u>544</u>			<u>659</u>	<u>1,203</u>
Total	<u>\$1,501</u>	<u>\$230,320</u>	<u>\$19,173</u>	<u>\$138,106</u>	<u>\$389,100</u>

Schedule of Nonbudgeted Program Expenditures and Transfers Out By Program and Object

	<u>Personal Services</u>	<u>Operating Expenses</u>	<u>Equipment & Intan- gible Assets</u>	<u>Grants</u>	<u>Transfers Out</u>	<u>Total</u>
Instruction	\$4,535	\$3,644			\$ 716	\$ 8,895
Academic Support	7,700	514				8,214
Student Services	1,070	3,159	\$16,282			20,511
Plant Operation & Maintenance	3,170	268				3,438
Scholarships & Fellowships	894	4,160		\$203,489	849	209,392
Auxiliary Enterprises	11,602	125,845				137,447
GAAP Adjustments	<u>1,203</u>					<u>1,203</u>
Total	<u>\$30,174</u>	<u>\$137,590</u>	<u>\$16,282</u>	<u>\$203,489</u>	<u>\$1,565</u>	<u>\$389,100</u>

3. LEGISLATIVE ACTION

The 50th Legislature, in Chapter 658, Laws of 1987, transferred the governance of the five vocational-technical centers from joint governance with the Office of Public Instruction (OPI) and the local school districts to single governance under the Board of Regents of Higher Education. Provisions of the bill allow a two year period to effect the transfer. Directors of the centers became state employees effective July 1, 1987, and the remaining staff and faculty became state employees effective July 1, 1989.

4. PROGRAM CHANGES

In fiscal year 1987-88, the center reported the majority of activity related to academic support, student services, and institutional support programs in a combined support program. In fiscal year 1988-89, the center reported most activity in the individual programs and reported no activity in the combined support program. The Office of the Commissioner of Higher Education (CHE) instructed the center to make this change.

5. CARL PERKINS

In fiscal years 1987-88 and 1988-89, the center recorded Carl Perkins activity, to the extent of Legislative Appropriation, in the Unrestricted Subfund. The center reported all other Carl Perkins activity in the Restricted Subfund. The center recorded, in the Unrestricted Subfund, Carl Perkins receipts of \$121,702 in fiscal year 1987-88 as transfers in and \$136,936 in fiscal year 1988-89 as federal revenue. The center recorded, in the Restricted Subfund, Carl Perkins receipts of \$23,987 in fiscal year 1987-88 primarily as transfers in and \$28,350 in fiscal year 1988-89 as federal revenue.

Center Response



GREAT FALLS
VOCATIONAL
TECHNICAL
CENTER

2100 - 16th Avenue South
Great Falls, MT 59405
406 / 771-1240

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MAY 24 1990

Montana Legislative Auditor

May 22, 1990

James Gillett
Deputy Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Gillett,

Enclosed are our responses to the recommendations made in the Financial-Compliance Audit for the two fiscal years ended June 30, 1989, performed by your staff. Also included are the two copies of the draft report that we are returning.

I would like to extend my sincere thanks to your staff involved with our audit. They exhibited professionalism and cooperation with the Center staff.

Sincerely,

Willard R. Weaver

Willard R. Weaver *W.R.W.*
Director

WRWtjs
enc.

RESPONSE TO
THE FINANCIAL-COMPLIANCE AUDIT OF
THE GREAT FALLS VOCATIONAL-TECHNICAL CENTER
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1989

Recommendation #1 The center reimburse federal student financial aid accounts for over-awards in accordance with federal regulations.

CENTER REPLY: Partial concurrence. Receivables due from students shall be recorded on SBAS prior to year end, 1990. The U. S. Department of Education has been notified of these over-awards via the State of Montana. The center is awaiting further instructions. In an effort to expedite this issue, a letter has been forwarded directly from the center to the Department of Education requesting guidance in resolving the situation. The center does not wish to act until a written statement is received from the Department of Education. Upon notification, the center will comply in a timely fashion.

Recommendation #2 The center establish procedures to estimate cash needs and request federal funds in accordance with federal regulations.

CENTER REPLY: Concur. Effective Fall Quarter 1989 the center addressed cash management with two major efforts:

1. By utilizing the On-Line Entry & Edit (OE&E) functions of SBAS, cash requests made by the fiscal office for federal moneys can be held in incomplete status and then released and expended when said funds are received thus reducing turn around time significantly.

2. By increasing the frequency of federal cash requests to coincide with the state payroll processing function, smaller amounts of cash are requested.

Recommendation #3 The center implement a refund/ repayment policy that complies with federal regulations.

CENTER REPLY: Concur. The center is currently in the process of establishing a refund/ repayment policy for over-payments made to federal student financial aid recipients. The policy will be completed and implemented by August 1, 1990, to correspond with the beginning of the Fall 1990 semester. This extension has been approved by the U. S. Department

extension has been approved by the U. S. Department of Education.

Recommendation #4 The center establish procedures to segregate cash receipts functions in accordance with state policy.

CENTER REPLY: Concur. Effective April 30, 1990, the center issued and implemented procedures to adequately segregate cash receipts functions in accordance with state policy. A refined copy of the procedure that was presented at the exit conference is attached for your review.

Recommendation #5 The center establish adequate internal controls over fixed assets.

CENTER REPLY: Concur. Effective fiscal year end 1990, the center will implement procedures that assure adequate internal controls over fixed assets. A copy of the procedure is attached for your review.

Recommendation #6a The center record Carl Perkins subgrant activity, Pell receivables, and other financial activity in compliance with state law and policy.

CENTER REPLY: Concur. This recommendation addresses several issues which have been given individual attention below.

The issue of whether to record Carl Perkins money in the unrestricted or restricted subfund is expected to be resolved by the Office of the Commissioner of Higher Education and the state legislature in the 1991 legislative session. The center will implement any changes in accounting as directed by the Commissioner's Office and/or the legislature to ensure common practice amongst all centers.

With regard to Pell receivables, the center will, beginning in June, 1990, review Pell receivables on an annual basis prior to fiscal year end and record the appropriate entries onto SBAS to correctly reflect receivables at year end.

Recommendation #6b The center revise Pell receivable collection policies and turn accounts over to the U. S. Department of Education after making reasonable collection efforts.

CENTER REPLY: Concur. Policy is currently being written that addresses this recommendation. The policy will

follow guidelines set forth by the U. S. Department of Education and will be implemented in June 1990 to coordinate with the review of Pell receivables mentioned in the center's reply to recommendation #6a.

Recommendation #6c The center establish review procedures to ensure the center's accounting records comply with state law and policy, and federal student financial aid reports contain reliable financial data.

CENTER REPLY: Concur. Effective in September 1989 the center added another staff position to the business office. This additional FTE will allow internal control procedures and the review process to be strengthened.

Additionally, in September 1989 the center moved the student government activity account from the agency fund to the designated fund.

Recommendation #7 The center use federal administrative cost allowance moneys to offset the costs of administering financial aid programs to the maximum extent possible, in accordance with state law.

CENTER REPLY: Concur. Beginning in fiscal year 1990 the center has been utilizing administrative cost allowance moneys for travel expenses to attend financial aid workshops and purchase of software that enhance the financial aid programs offered by the center.

PROCEDURES FOR VERIFICATION OF FIXED ASSETS

The center is custodian for a large number of assets that are present within the confines of the building. These assets can be categorized into the following major categories:

- Autobody Repair/Refinishing
- Business Occupations
- Commercial Cook/Food Management
- Health Occupations
- Watchmaking/Jewelry Repair
- Administration
- Bookstore
- Janitorial/Grounds Maintenance
- Media Center

To adequately safeguard these assets and assure the integrity of the Property Accountability Management System (PAMS) the following procedures shall be followed:

1. Members of the administrative staff, as assigned by the fiscal officer, shall accompany the individual (typically an instructor or department head) who is responsible for a given area as mentioned above to assist in the inventory taking process. The administrative staff member will utilize the PAMS listing to verify descriptions, identification numbers, locations, counts, and to note exceptions for further verification.

Since the administrative staff does not have sufficient personnel to assist in the inventory process for all the aforementioned areas every year, the fiscal officer will select which areas will be verified in this manner for a given fiscal year. This method shall be used to cover all areas over a biennium.

2. For areas not selected in procedure #1, the Business office shall perform one of the following tests:

- a. Randomly select ten (10) items listed on the PAMS report and trace back to the physical location for verification of description, identification numbers, locations, counts, and note exceptions for further verification.

- b. Randomly select ten (10) items physically located in a given area of the building and trace back to the PAMS listing for verification of description, identification numbers, locations, counts, and note exceptions for further verification.

Exceptions noted shall be addressed on a case-by-case basis.

PROCEDURES FOR RECEIVING AND DEPOSITING CASH

The center collects cash and negotiable instruments on a daily basis through the following major areas:

Collection of tuition and fees from the student population.

Proceeds from sales in the Bookstore.

Proceeds from sales in the Cafeteria.

To ensure adequate controls over cash from receipt to deposit, the following procedures shall be followed:

1. Negotiable instruments shall be restrictively endorsed immediately upon receipt.
2. Moneys collected by the Office Manager (typically in the form of tuition and fees) and the respective receipts issued shall be given to the Accounting Technician to ensure that all moneys received have been receipted. This money is then forwarded to the Accounting Specialist.
3. Moneys received in the mail shall be opened by the Accounting Technician. The money is then receipted and forwarded to the Accounting Specialist.
4. Upon closing of business each day, the cafeteria and bookstore personnel will total cash register tapes and forward tapes and tills to the Accounting Specialist.
5. Upon receipt of tapes and tills from the bookstore and cafeteria personnel, the Accounting Specialist shall count tills and verify to tapes, noting any overage and shortage in daily cash journals.
6. The Accounting Specialist shall then combine all moneys and prepare bank deposit. The deposit shall be forwarded to the Accounting Technician for delivery to the bank.
7. Upon receipt of the completed deposit, the Accounting Technician shall deliver the deposit to the bank. Upon receipt of the deposit slip from bank, the Accounting Technician shall forward it to the Accounting Specialist for attachment to the Collection Report.
8. The Accounting Specialist shall then prepare the Collection Report (Form 241) for recording onto SBAS and staple deposit slip to Collection Report, verifying each balance to the other.
9. The Director or Fiscal Officer shall, on a random basis,

verify receipts by reviewing collection reports and deposit slips for accuracy.

10. The Fiscal Officer shall prepare the bank reconciliation on a monthly basis with review by the Accounting Technician.

